

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair



Subcommittee No. 3 on Health, Human Services, Labor, & Veterans Affairs

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Senator Gilbert Cedillo
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Agenda 1

**May 21, 2004
Room 4203 - 9 a.m.**

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7100 Employment Development Department

Purpose: The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work job seekers by providing employment and training programs. In addition, EDD collects and provides economic, occupational, and socio-demographic labor market information concerning California's workforce.

Budget: The Governor proposes \$12.62 billion (\$18.8 million General Fund), a decrease of \$836.7 million (6.2 percent) from the current-year budget.

VOTE ONLY ITEMS:**1. Delete the Manufacturing Technology Program Provisional Language (April 1 Finance Letter).**

Background: The Governor's Budget includes \$2.1 million in Employment Training Fund resources for an interagency agreement between the Employment Training Panel and the Business, Transportation, and Housing Agency for the purpose of funding the Manufacturing Technology Program (MTP). The MTP provides small and medium-sized manufacturers with access to a wide range of inexpensive business assistance including technical consultative services, workforce training, and professional development. The Employment Training Panel has separately approved training funds for the MTP's two regional offices.

Finance Letter: The Administration proposes to eliminate the provisional budget bill language that specifies \$2.126 million of the \$18.353 million Employment Training Fund appropriation shall be made available for the interagency agreement with the Business, Transportation and Housing Agency for the MTP. The total appropriation would not be reduced from \$18.353 million. While deletion of the provisional language would not prohibit the interagency agreement, the Employment Training Panel indicates that training grants are a higher priority than the MTP, and the MTP would not be funded in 2004-05. The Administration also indicates that Employment Training Panel funding for the MTP, whether for consulting or training, should be within ETP's purview and not a Budget Act provision.

May 10 Hearing: The Subcommittee heard this issue on May 10, and it was left open.

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

2. Control Section 6.60: Workers' Compensation Savings and Employment Training Panel Augmentation of up to \$40 Million (April Finance Letter)

Background: The Employment Training Panel (ETP) is a statewide economic development program that supports the California economy by providing worker training. The program seeks to assist employers, primarily small businesses, to compete in the global economy while providing workers higher wages and secure employment. The ETP is funded by the Employment Training Tax deposited into the Employment Training Fund. California employers participating in the Unemployment Insurance System pay this tax. ETP expenditures from the Employment Training Fund exceeded \$100 million in both 2001-02 and 2002-03; however, expenditures are estimated at \$18 million in 2003-04 and \$14 million in 2004-05. The appropriations and expenditures have declined due to falling Employment Training Tax revenue and increased expenditures out of the fund by the Department of Social Services.

The Employment Training Fund also supports local assistance expenditures for the CalWORKs program administered by the Department of Social Services. The Employment Training Fund appropriation for CalWORKs was \$30 million in 2002-03, but was increased to \$56 million in 2003-04, and is proposed to be \$56 million in 2004-05.

The Governor's Budget proposed a new General Fund transfer of up to \$40 million to support the Employment Training Panel to be funded by workers' compensation savings. The transfer would be contingent on workers' compensation savings, but also permissive for the Director of Finance should those savings be realized. If the workers' compensation savings did not materialize or if the Finance Director did not choose to make the transfer, the ETP would be funded solely by the Employment Training Fund – with an appropriation of \$18.353 million. The 2003-04 appropriation was \$40.313 million, but expenditures were reduced to \$22.915 million after anticipated revenues did not materialize – approximately \$4.7 million of each year's appropriation supports operations of the tax collection branch.

Finance Letter: The Administration now proposes a different mechanism that would achieve a similar result to what was proposed in the Governor's Budget. A new Control Section 6.60 is proposed to allow the Director of Finance to survey departments for workers' compensation savings and transfer these savings to the General Fund. Instead of using the workers' compensations savings for a transfer to the Employment Training Fund, the Administration now proposes to augment (by up to \$40 million) the General Fund CalWORKs appropriation, reduce the CalWORKs Employment Training Fund appropriation by the same amount, and increase (by up to \$40 million) the Employment Training Panel Employment Training Fund appropriation. This would result in no net change to CalWORKs funding.

May 10 Hearing: The Subcommittee heard this issue on May 10, and it was left open.

Budget Issue: Does the Subcommittee wish to adopt Control Section 6.60 and the related budget bill changes?

3. Forecast Revision to the Unemployment Insurance (UI) Benefits Program (May Revision Finance Letter)

Background: The UI Program provides and maintains an employer-funded system to pay benefits to individuals who become unemployed through no fault of their own. Individuals file claims with the EDD and, if determined eligible, are paid UI benefits. The EDD's Program Estimates Group has adjusted the projections for UI workload and estimated UI claims based on historical trends and projected improvements to the California economy.

Finance Letter: The Administration requests a reduction of \$877.364 million to Item 7100-101-0871 to reflect a projected decrease in UI benefit payments. The 2003-04 benefit expenditure is now estimated to be \$394.851 million less than previously projected. The request change represents an adjustment to expenditure projections and not a cut to the program.

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

4. Unemployment Fund Loan Interest (May Finance Letter)

Background: The UI program is a federal-state program, authorized in federal law but with broad discretion for states to set benefit and employer contribution levels. The program is financed by unemployment tax contributions paid by employers for each covered worker. Employers pay unemployment taxes on up to \$7,000 in wages paid to employees. The actual tax rate for each employer depends on the past utilization of the UI program by the employer's workers. Current law establishes a series of contribution rate schedules ranging from A to F, with each rate schedule tied to various potential conditions of the UI fund. Chapter 409, Statutes of 2001 (SB 40) provided for a total increase in the maximum weekly benefit from \$230 to \$450 by January 2005. Chapter 409 did not change the employer contribution schedule.

Due to higher UI claims in recent years, higher benefit levels, and caps on employer contributions, the UI fund was projected to become insolvent and the EDD applied for a federal loan during the fall of 2003. The EDD reports that it took a federal loan in April 2004 and the entire balance will be repaid in May 2004. However, additional borrowing may be needed as early as October 2004, and if additional borrowing occurs in calendar year 2004, the interest incurred on the April and May loan amount will become due once the second loan is initiated.

Finance Letter: The Administration requests provisional budget language allowing the EDD to augment the Employment Development Contingent Fund in order to make interest payments on a federal Unemployment Fund loan.

The LAO has no objection to this proposal, but indicates that the Legislature could ask the administration to seek expenditure authority for interest payments when it submits its legislative package to address the UI insolvency.

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

5. Disability Insurance (DI) Program and Benefit Adjustments (May Finance Letter)

Background: California DI is a worker-funded program that provides benefits to workers who are unable to work due to non-work related illness, injury, or pregnancy. The budget is based on estimated workload projections by the Program Estimates Group within EDD.

Finance Letter: The Administration requests the below DI adjustments for the EDD and the California Unemployment Insurance Appeals Board (CUIAB) based on revised workload projections. The requested adjustments do not represent a cut to the program.

	State Fiscal Year 2003-04		State Fiscal Year 2004-05	
	PYs	Dollars	PYs	Dollars
Workload adjustments				
CUIAB workload adjustment	-7.9	-\$723,000	-5.4	-\$512,000
EDD workload adjustment	-28.6	-\$1,774,000	-26.3	-\$1,691,000
Workload Adjustment Total	-36.5	-\$2,497,000	-31.7	-\$2,203,000
Benefits changes		-\$90,690,000		-\$45,187,000
Total DI authority request	-36.5	-\$93,187,000	-31.7	-\$47,390,000

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

6. School Employees Fund Adjustments (May Revision Finance Letter)

Background: The School Employees Fund (SEF) Program is a joint, pooled-risk fund administered by the EDD, which collects contributions based upon a percentage of total wages paid by public schools and community college districts. Money deposited in the SEF is used to reimburse the Unemployment Insurance (UI) Fund for the cost of UI benefits paid to former employees of those school employers who have elected this option in lieu of paying the tax-rated method, as is required of private sector employees. The contribution rate is calculated annually based upon the formula established in California Unemployment Insurance code Section 823.

Finance Letter: The Administration requests to adjust the benefits authority to correspond with the current projected expenditure level. The requested adjustments are as follows:

- 2003-04 Local Assistance increase of \$4,585,000.
- 2004-05 Local Assistance increase of \$27,650,000.

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

7. Workforce Investment Act Adjustments (May Revision Finance Letter)

Background: The Workforce Investment Act Title I funds are available through three programs: Adult Employment and Training; Youth Activities; and Dislocated Workers. In accordance with the Department of Labor regulations, the EDD administers the WIA funds in consultation with the California Workforce Investment Board.

Finance Letter: The Administration requests the following adjustments to realign the budget with new projections of WIA resources:

- 2003-04 State Support increase of \$1,146,000.
- 2003-04 Local Assistance decrease of \$3,218,000.
- 2004-05 State Support increase of \$1,988,000.
- 2004-05 Local Assistance increase of \$1,606,000.

Budget Issue: Does the Subcommittee wish to adopt the Administration's request?

DISCUSSION ITEMS**1. Workforce Investment Act Discretionary Funds (May Revision Finance Letter)**

Background: The federal Workforce Investment Act of 1998 seeks to strengthen coordination among various employment, education, and training programs, and support the delivery of employment and training services. The 63 member Workforce Investment Board (WIB) advises the Governor on the operations of the state workforce investment system; however, the board's actions are not binding on the Governor. Pursuant to federal law, 85 percent of WIA funds (an estimated \$449 million in 2004-05) are allocated to local WIBs, formerly known as Private Industry Councils. The remaining 15 percent of WIA funds (\$67 million) are available for discretionary purposes such as administration, statewide initiatives, current employment service programs, or competitive grants.

The Governor's budget does not include an expenditure plan for the federal Workforce Investment Act (WIA) discretionary funds. In order to ensure that the WIA discretionary spending is consistent with legislative priorities, the Legislative Analyst Office (LAO) recommends the subcommittee deny the expenditure authority for these federal funds until an expenditure plan is submitted to the Legislature. (Reduce Item 7100-001-0869 by \$16.8 million).

March 25 Hearing: The subcommittee adopted the LAO recommendation to reduce WIA expenditure authority by \$16.8 million until the administration submits an expenditure plan.

May Finance Letter: The Administration submitted a WIA discretionary fund expenditure plan with the May Revision. After review of the expenditure plan, the LAO recommends that the subcommittee rescind the prior action, which reduced WIA expenditure authority by \$16.8 million and approve the Finance Letter.

Alternative Proposal for California Conservation Corps (CCC): WIA funds could be used to support training for California Conservation Corps members as firefighters. The LAO indicates such expenditures would be consistent with Item 7100-001-0869, Schedule 8, Removing Barriers for Special Needs Populations, and it appears up to \$2.5 million may be available for this purpose. Of this \$2.5 million, \$310,000 is the suggested amount for CCC training, and this amount could be specified for allocation to the CCC with budget bill provisional language.

To implement this alternative, the LAO suggests the following language:

Add provision 5 to Item 7100-001-0869:

5. Up to \$310,000 of the funds in Schedule 8 shall be used to provide fire and fuel reduction training for California Conservation Corps members participating in the fuels management partnership.

Budget Issue: Does the Subcommittee wish to restore the \$16.8 million WIA discretionary fund expenditure authority and add provisional language to specify \$310,000 shall be for support training for the California Conservation Corps?

7350 Department of Industrial Relations (DIR)

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The department is continually working toward this objective by enforcing workers' compensation insurance laws and adjudicating workers' compensation insurance claims, working to prevent industrial injuries and deaths, promulgating and enforcing laws relating to wages, hours, and conditions of employment, promoting apprenticeship and other on-the-job training, assisting in negotiations with parties in dispute when a work stoppage is threatened, and by analyzing and disseminating statistics which measure the condition of labor in the state.

Budget: The Governor proposes \$281.9 million (\$62.2 million General Fund), an increase of \$2.3 million from the current-year budget.

VOTE ONLY ITEMS:**1. Reappropriation for the Case Management System IT Project (April Finance Letter)**

Background: The Budget Act of 2003 appropriated \$960,000 for the Division of Labor Standards Enforcement's centralized Case Management System (CMS) information technology project. The DIR indicates the CMS will improve data analysis and enforcement, and provide easy access to statewide information for staff and members of the public. The total cost for the CMS is estimated at \$3.7 million through 2007-08 (excluding the cost of redirecting existing staff). Contract award for the project has been delayed due to procurement changes and DIR now anticipates the contract will be awarded in October 2004.

Finance Letter: The Administration proposes to reappropriate up to \$960,000 to reflect the revised timetable for the CMS project.

Budget issue: Does the Subcommittee wish to approve the proposed reappropriation?

2. Reappropriation for Studies Required by Chapter 6, Statutes of 2002 (May Finance Letter)

Background: Chapter 6, Statutes of 2002 (AB 749), requires the DIR and the Commission on Health and Safety and Workers' Compensation to complete a medical study and a physical education and training study. Funds for these studies were appropriated in the 2003 Budget Act.

May Revision: The requests to reappropriate up to \$350,000 to allow the DIR to contract with the RAND Corporation to complete the medical study and up to \$300,000 to allow DIR to complete a physical education and training study.

Budget issue: Does the Subcommittee wish to approve the request?

3. Uninsured Employers Fund and Subsequent Injuries Fund Administration

Background: The Budget Act of 2003 and related trailer bills transferred functions and funding for administration of the Uninsured Employers Fund and the Subsequent Injuries Fund from the Department of Industrial Relations to the State Compensation Insurance Fund. The Administration has now determined that transferring the two programs to the State Compensation Insurance Fund will result in increased administration costs.

Governor's Budget: The budget proposes to reinstate 58 positions, establish 5 new positions, and provide \$1.1 million in funding to continue DIR administration of the programs.

Budget issue: Does the Subcommittee wish to approve the proposed restoration of positions and funding to support DIR administration of the Uninsured Employers Fund and the Subsequent Injuries Fund?

4. Reductions to Generate General Fund Savings (May Finance Letter)

Background: At the March 25 hearing, the subcommittee voted to eliminate funding for the Industrial Welfare Commission. If implemented, this action would result in General Fund savings of \$235,000 and the elimination of two positions.

May Revision: The Administration requests the following actions to generate General Fund savings totaling \$2.010 million:

- Eliminate the Industrial Welfare Commission (this action was already taken by the subcommittee).
- Eliminate \$92,000 from the Division of Occupational Safety and Health. New federal funds allow this reduction without impacting the program.
- Eliminate General Fund support for the Apprenticeship Program and backfill with the Apprenticeship Training Contribution Fund (ATCF). The DIR indicates that the elimination of General Fund support would not impact the Apprenticeship Program because the ATCF contains a sufficient fund balance to allow redirection of ATCF funds to finance Apprenticeship Program expenditures currently paid out of the General Fund. Based on the current ATCF condition statement, the existing fund balance, combined with the ongoing contributions of contractors into the fund, should be able to sustain Apprenticeship Program expenditures for 2004-05, and for several years beyond.

Budget issue: Does the Subcommittee wish to approve the request?

DISCUSSION ITEMS

1. Workers' Compensation Reform and Baseline Adjustments (May Finance Letter)

Background: California's workers' compensation system has had three significant reforms in the past three years: Chapter 749, Statutes of 2002 (AB 749); Chapter 639, Statutes of 2003 (SB228); and Chapter 34, Statutes of 2004 (SB 899). Funding of \$9.252 million and 72 positions was provided to the various workers' compensation programs at the DIR for implementation of AB 749 in 2003-04.

May Revision: The Administration requests the following related to workers' compensation reform:

- An augmentation of \$20.106 million from the Workers' Compensation Administration Revolving Fund and the establishment of 249.0 positions (174.3 personnel years) for implementation of SB 228 and baseline funding for the courts.
- Authority for the Director of Finance with 30 day notification to the Legislature, to augment by up to 10 percent of the Workers' Compensation Administration Revolving funds appropriated to the DIR to fund implementation of SB 899. The requested provisional language would also allow the DIR to submit an expenditure plan for the implementation of SB 899 no later than August 1, 2004.
- Authority to upgrade entry level support staff to the Program Technician series for recruitment and retention purposes, which the Department indicates was the recommendation of a RAND study.
- An appropriation of \$2.543 million for the development of the workers' compensation case management system.

Subcommittee request: The Subcommittee has requested that the Administration describe the proposal and the anticipated workload to implement this year's workers' compensation reform.

Budget issue: Does the Subcommittee wish to approve the request?

8955 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity of becoming homeowners through the medium of loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services.

Budget: The Governor proposes total expenditures of \$293.7 million (\$61.2 million General Fund), a decrease of \$10.4 million from the current-year budget.

VOTE ONLY ITEMS**1. Contract for Food Services and Security Functions**

Background: The Governor's Budget proposes a \$569,000 reduction in General Fund support and the elimination of 120 positions currently providing food and security services at the Yountville home. The budget proposes to contract with a private entity for these services and assumes that contracting out would save 8 percent of current costs.

Both the Barstow and Chula Vista homes contract out for these types of services. Unlike Yountville, they began using private contracts upon their opening. According to the LAO, under current law the department would face a number of hurdles to contract out for these services at the Yountville home, as contracting would displace state workers. The department's savings projection depends on beginning to lay off staff in July 2004. The constitutional amendment proposed by the Governor to facilitate contracting for services provided by state workers will not be considered by the voters until the November 2004 ballot at the earliest. Consequently, the savings projection for the budget year is overstated.

March 25 hearing: This issue was heard and left open at the March 25 hearing. Finance had indicated there might be a May Revision letter on this issue.

May Finance Letter: The Administration requests the withdrawal of the Governor's Budget proposal to contract for food services and security functions at the Veterans Home of California, Yountville. The Administration indicates this proposal could not be implemented without amendments to the State Constitution. This Finance letter would increase General Fund expenditures by \$569,000.

Budget Issue: Does the Subcommittee wish to adopt the May Revision Letter and restore the General Fund expenditures that were reduced in the Governor's Budget?

2. Consolidation of Veterans Home Distributed Administration

Background: Currently, funding and positions for various Department of Veterans Affairs and Veterans Homes administrative activities are approved as part of the budget for individual homes, even though the staff is located at the Sacramento headquarters. Positions that have been with the Department since the mid-1990's to perform budgeting, fiscal oversight and other administrative activities are funded from individual homes. The Governor's Budget proposes to shift 41 positions and \$3.4 million in funding from the budgets of individual homes to the headquarters budget for administrative activities. Veterans Affairs indicates this is a budgetary recognition of the existing organizational structure.

Budget issue: Does the Subcommittee wish to approve the proposed funding and position shift from individual homes to the Department of Veterans Affairs?

DISCUSSION ITEMS

1. Augment General Fund and Adjust Reimbursements to Historical Levels (May Finance Letter)

Background: Over the past several years, actual reimbursements have been significantly less the budgeted amounts at the Veterans Home of California, Yountville. Consequently, Veterans Affairs has requested and been approved for deficiency augmentations or other relief. In some cases relief was provided through loan forgiveness, and in other cases deficiency requests were approved. The shortfalls have been as follows:

1999-00:	\$2.0 million
2000-01:	\$2.9 million
2001-02:	\$6.3 million
2002-03:	\$4.3 million
2003-04:	\$1.7 million (currently requested)

May Finance Letter: The Administration requests a \$2 million General Fund augmentation and a \$2 million reduction in reimbursement authority. The Administration argues that this change would ultimately not increase General Fund costs, because without this funding the Department will likely need to submit a deficiency request during 2004-05.

Subcommittee request: The Subcommittee has requested that the Administration indicate whether approval of this proposal will eliminate the need for future deficiency requests.

Budget Issue: Does the Subcommittee wish to adopt the May Revision Letter to augment General Fund and reduce budgeted reimbursements?

2. Quality Assurance Oversight / Position Reductions (May Finance Letter)

Background: The Governor's Budget proposed to redirect 6.0 positions and \$670,000 from individual Veterans Homes to the Department of Veterans Affairs for program oversight, and quality assurance activities. Specifically, the Department requested to create a state organization of medical, clinical and administrative experts to improve quality of care, assure regulatory compliance and secure maximum reimbursement collection at the homes. The budget proposed to shift to the Department two license vocational nurses, a chief of medicine and an executive secretary from Yountville, a supervising registered nurse from Chula Vista and a pharmacist from Barstow. According to the Department, all the positions to be shifted are currently vacant.

May Revision: The Administration now proposes to abolish five of the six positions originally proposed for quality assurance oversight, but retains the request to shift a pharmacist from Barstow for quality assurance. In addition to abolishing the five positions, the Administration proposes to eliminate a Stock Clerk from headquarters and a Stationary Engineer from Chula Vista. The elimination of these seven positions would reduce General Fund costs by \$426,000.

Staff Alternative Proposal: The Subcommittee may want to retain the General Fund savings requested in the May Finance Letter, but delete positions in the headquarters instead of positions in the homes. Upon staff request, the Department provided the alternative of deleting a Data Processing Manager III and one Account Administrator I position, as well as giving up \$150,000 in various operating expense funds (all in headquarters) to generate the \$426,000 in General Fund savings. This alternative would also deny the redirection of a Pharmacist position from Barstow to headquarters for quality assurance work.

Subcommittee request: The Subcommittee has requested that the Administration describe the proposal. The Subcommittee has also requested that the Administration comment on the programmatic impact of generating this same level of savings by eliminating only headquarters positions and retaining all the positions at the homes.

Budget issue: Which of the following actions would the Subcommittee like to take:

1. Approve the Administration proposal to generate \$426,000 in General Fund savings by eliminating two headquarters positions and five positions at the homes. Redirect a Pharmacist position in Barstow to headquarters for quality assurance work.
2. Approve the staff alternative to generate \$426,000 in General Fund savings, but take the entire reduction in headquarters. Deny the redirection of a Pharmacist position in Barstow to headquarters.
3. Deny the General Fund reduction.
4. Other.